great plains college

FINANCE

EMC Reviewed: November 5, 2013
Policy Council Review: First Reading: November 4, 2013
Board Approved December 10, 2013: BM # 14:2013-2014

NAME: TANGIBLE CAPITAL ASSET

INTRODUCTION:

This policy utilizes and references wording from the CICA (Canadian Institute of Chartered Accountants) PSA (Public Sector Accounting) Handbook pronouncements. More specifically this policy references the following sections:

3150	Tangible Capital Assets
PSG-2	Capital Leases

PURPOSE:

- To ensure tangible capital assets held by Regional Colleges are accounted for using generally accepted accounting principles as defined by the CICA PSA Handbook pronouncements on "tangible capital assets held by not-for-profit organizations".

- To enhance consistency amongst Regional Colleges in the accounting treatment and financial presentation of tangible capital assets held by Regional Colleges for the purpose of aiding internal and external users in comparing such information.

- To outline administrative guidelines for Regional Colleges for the purpose of assisting them in accounting for tangible capital assets in an effective and efficient manner.

DEFINITIONS

The definitions that follow have been adopted for purposes of this policy.

Tangible Capital Assets are non-financial assets having physical substance that:

- are held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other tangible capital assets;
- have useful economic lives extending beyond an accounting period;
- are to be used on a continuing basis; and
- are not for sale in the ordinary course of operations.

Property, Plant and Equipment are capital assets that are tangible.

Intangible Properties are capital assets that lack physical substance. Examples of intangible properties include brand names, copyrights, franchises, licenses, patents, software, subscription lists, and trademarks.

Capital Lease is a lease that, from the point of view of the lessee, transfers substantially all benefits and risks incident to ownership of the asset to the lessee. This would normally occur when, at the inception of the lease, one or more of the following conditions are present:

- There is reasonable assurance that the lessee will obtain ownership of the leased asset by the end of the lease term either through a transfer of ownership at the end of the term of the lease or if the lease provides for a bargain purchase option;
- The term of the lease is of such duration that the lessee will receive substantially all of the economic benefits expected to be derived from the use of the leased property over its life span. This usually occurs where the lease term is for 75% or more of the economic life of the asset; or,

- If the present value of the minimum lease payments is 90% or more of the fair value of the leased property at the lease inception.

Cost is the gross amount of consideration given up to acquire, construct, develop or better a tangible capital asset, and includes all costs directly attributable to acquisition, construction, development or betterment of the tangible capital asset, including installing the asset at the location and in the condition necessary for its intended use. The cost of a contributed tangible capital asset, including a tangible capital asset in lieu of a developer charge, is considered to be equal to its fair value at the date of contribution. Capital grants would not be netted against the cost of the related tangible capital asset.

Fair Value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Net Carrying Amount or Net Book Value of a tangible capital asset is cost less both accumulated amortization and the amount of any write-downs.

Residual or Salvage Value is the estimated net realizable value of a tangible capital asset at the end of its useful life to the College.

Service Potential is used to describe the service capacity or output of a tangible capital asset and is normally determined by reference to attributes such as useful life, associated operating costs, physical output capacity and quality of output.

Useful life is the estimate of either the period over which a tangible capital asset is expected to be used by the College, or the number of production or similar units that can be obtained from the tangible capital asset by the College. The life of a tangible capital asset may extend beyond the useful life of a tangible capital asset to the College. The life of a tangible capital asset, other than land, is finite, and is normally the shortest of the physical, technological, commercial and legal life.

SCOPE AND JURISDICTION

This policy applies to all Regional Colleges that hold tangible capital assets as a result of carrying on the operations and activities of the College.

This policy applies to all tangible capital assets (as defined above) held by the Regional College.

This policy applies to all tangible capital assets which are leased by the Regional College and in accordance with CICA PSA Handbook are considered capital leases as defined above.

This policy does not apply to capital assets which are held by the Regional College as part of a work of art collection, historical treasure collection or other similar type of collection. These collections are:

- held for public exhibition, education or research; protected, cared for and preserved; and
- subject to an organizational policy that requires proceeds from their sale to be used to acquire other items to be added to the collection or for the direct care of the existing collection.

In the presence of uncertainty in determining whether a particular asset qualifies as a "tangible capital asset", or determining which costs should be capitalized, or determining fair market value, or determining useful life for the purposes of this policy professional judgment must be exercised. Professional judgment is based on an individual's past experiences and training.

TANGIBLE CAPITAL ASSET RECOGNITION AND MEASUREMENT

Cost or Estimated Value

A tangible capital asset should be recorded on the statement of financial position at cost. The cost of a tangible capital asset includes the purchase price and other acquisition costs such as installation costs, design and engineering fees, legal fees, survey costs, site preparation costs, freight charges, transportation, insurance costs and duties.

For a contributed tangible capital asset, cost is considered to be fair value at the date of contribution. Fair value of a contributed tangible capital asset may be estimated using market or appraisal values. A tangible capital asset purchased at substantially below fair value would also be recognized at its fair value with the difference between the consideration paid for the tangible capital asset and the fair value reported as a contribution.

In unusual circumstances when the fair value cannot be reasonably determined, the tangible capital asset should be recorded at nominal value.

Construction or Development Over-Time

The cost of a tangible capital asset includes direct construction or development costs (such as materials and labour) and overhead costs directly attributable to the construction or development activity. A tangible capital asset which is developed or constructed by the College might include contributed materials or labour, which would be recognized at fair value at the date of contribution.

The degree of certainty as to future benefits to be derived from costs attributable to developing intangible property varies and, in many cases, the expected future benefits may be too uncertain to justify asset recognition. When future benefits are reasonably assured, however, such costs are capitalized.

Betterment

The cost incurred to enhance the service potential of a tangible capital asset is a betterment. Service potential may be enhanced when there is an increase in the previously assessed service capacity, associated operating costs are lowered, the useful life is extended, or the quality of output is improved. The cost incurred in the maintenance of the service potential of a tangible capital asset is a repair, not betterment.

AMORTIZATION

The cost, less any residual or salvage value, of a tangible capital asset with a limited life should be amortized over its useful life in a rational and systematic manner appropriate to its nature and use by the College. Amortization should be recognized as an expense in the College's statement of operations.

Amortization should be calculated using the straight-line method based on the useful life of the asset. All tangible capital asset categories are defined in "Tangible Capital Asset Categories" below except for the "other" tangible capital asset category has predetermined estimated useful lives. If a tangible capital asset belongs in the "other category, professional judgment must be used to estimate the useful life.

The useful life estimates indicated in the categories below, should be used as a standard for each category although Regional Colleges have the ability to change the useful life used for an individual asset if the change can be justified. Factors to be considered in estimating the useful life of a tangible capital asset include expected future usage, effect of technological obsolescence, expected wear and tear from use or the passage of time, the maintenance program, and the condition of existing comparable terms.

Residual value is the amount that the College expects to be able to realize on disposal of a tangible capital asset at the end of its useful life to the College. In most cases, residual value would be negligible and would be ignored for the purpose of calculating amortization. However, when the College expects the residual value of a tangible capital asset to be significant, it should be factored into the calculation of amortization.

Amortization begins in the year the tangible capital asset is placed into use. A full year's amortization is provided for in the year the asset is put into use regardless of when this event occurs in the fiscal year.

No amortization is provided in the year the asset is disposed of.

The amortization method and the estimate of the useful life of a tangible capital asset should be reviewed on a regular basis.

The amortization of the costs of tangible capital assets should be accounted for as expenses in the statement of operations.

WRITE DOWNS OF TANGIBLE CAPITAL ASSETS
When a tangible capital asset no longer has any long-term service potential to the College, the excess of its net carrying amount over any residual value should be recognized as an expense in the statement of operations. A write down should not be reversed.

DISPOSAL OF A TANGIBLE CAPITAL ASSET
On disposal of a tangible capital asset, whether by sale, destruction, loss, abandonment or expropriation, the difference between the net proceeds on disposal and the net carrying amount is recognized in the statement of operations.

FINANCIAL PRESENTATION AND DISCLOSURE
The financial statements should disclose, for each major category of tangible capital assets and in total:

- cost at the beginning and end of the period;
- additions in the period;
- disposals in the period;
- the amount of any write-downs in the period;
- the amount of amortization of the costs of tangible capital assets for the period;
- accumulated amortization at the beginning and end of the period; and
- net carrying amount at the beginning and end of the period.

Financial statements should also disclose the following information about tangible capital assets:

- the amortization method used, including the amortization period or rate for each major category of tangible capital asset;
- the net book value of tangible capital assets not being amortized because they are under construction or development or have been removed from service;
- the nature and amount of contributed tangible capital assets received in the period and recognized in the financial statements;
- the nature and use of tangible capital assets recognized at nominal value;
- the nature of the works of art and historical treasures held by the government; and
- the amount of interest capitalized in the period.

TANGIBLE CAPITAL ASSET CATEGORIES

Land
Should not be amortized
- Estimated useful life: Indefinite
- Minimum value capitalized: 0

Land Improvements
- Estimated useful life: 5 years
- Minimum value capitalized: $5,000

Buildings
Include any betterment to building.
- Estimated useful life: 20 years
- Minimum value capitalized: $20,000

Leasehold Improvement
Includes all improvement and building renovations made to a building that has a definite lease period.
- Estimated useful life: life of the lease. (At the College's discretion may include any applicable renewal period that forms part of the lease agreement.)
- Minimum value capitalized: $10,000

Licensed Motor Vehicles
- Useful life: 5 years
- Minimum value capitalized: $5,000

Machinery and Equipment
Includes any machinery and equipment not included elsewhere.
- Useful life: 5 years
- Minimum value capitalized: $5,000

Computer Hardware
Includes the purchase and installation of computer hardware, such as personal computers, lap tops, monitors and printers.
- Useful life: 3 years
- Minimum value capitalized: $2 000

Office Equipment
Includes such items as purchased photocopiers, fax machine and other business equipment.
- Useful life: 5 years
- Minimum value capitalized: $2,000

Office Furniture
Includes all office furniture and furnishings. Examples of office furniture are desks, table, chairs and filing cabinets.
- Useful life: 10 years
- Minimum value capitalized: $2,000

System Development
Includes costs incurred to design, develop and implement a computer system. Both external costs (i.e., hiring an external consultant) and internal government costs (i.e., salary costs related to the development of a system) are included.

- Useful life: Expected life of the developed system.
- Minimum value capitalized: $20,000

Other
Other tangible capital assets not included in another category.
- Useful life: dependent on asset acquired.
- Minimum value capitalized: $5,000

CAPITALIZATION PROCEDURES
The procedures to determine if capitalization is appropriate are as follows:
- Determine the tangible capital asset category the asset belongs to and
- Assess whether the tangible capital asset meets the minimum value capitalized requirement.

The category list above is the minimum value that can be capitalized. Generally, the minimum value capitalized for each category represents the minimum cost an individual asset, except as noted, must have before it is to be treated as a tangible capital asset and added to the proper category balance.